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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [ENIV](#) [VE](#)
SUBJECT: PDVSA PUMMELS JBIC

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (C) SUMMARY: The PDVSA board scuttled a major gas project in March when it rejected project financing by the Japan Bank for International Cooperation (JBIC), Japan's version of EXIM. The decision severely embarrassed JBIC and it is not clear if it will be willing to finance Venezuelan projects in the future. END SUMMARY

JBIC LOSES FACE

12. (C) Two Mitsubishi executives told Petroleum Attache on July 31 that their competitors Mitsui and Marubeni had put together a major cryogenic project as part of the East-West gas pipeline project. The executives also indicated that there were smaller additional projects that were part of the package. JBIC was supposed to finance a major portion of the project. One of the executives stated that although Mitsui and Marubeni were Mitsubishi's competitors, he had to admit that they had done an excellent job putting together the project, including the financing.

13. (C) According to the executives, JBIC's board had approved the financing for the project in early March and its Governor had signed off on the project. However, when the project was presented to the PDVSA board, they rejected the JBIC financing. According to the Mitsubishi executives, the financing was rejected on two grounds: the interest rate was too high and the agreement was governed by U.S. law. Later in the conversation, one of the executives opined that the PDVSA board lacked sophistication and found the agreement to be too complicated. They apparently did not like the fact that the agreement had provisions for an escrow account and an off-shore account in New York.

14. (C) The PDVSA board rejected the project financing on or around March 27. Since JBIC's fiscal year ends on March 31,

the rejection left JBIC in a difficult situation. The Venezuela project was supposed to take the place of a project in Sakhalin that had fallen through. AS a result, JBIC was left with a significant amount of funds that it could not disburse. The executives stated JBIC is currently being reorganized by the Japanese government and that the rejected deal could not have come at a worse time for JBIC management.

In addition, the executives implied that the PDVSA did not communicate its rejection of the deal in an appropriate manner.

COMMENT

15. (C) According to the executives, the whole incident is referred to in their offices as the "funny (or strange) thing that happened in March." As we have repeatedly noted, PDVSA has lost most of its commercial acumen. It is quite believable that the PDVSA board had trouble understanding the nature of the financing arrangement. It is also quite believable that they did not think through how to best present their rejection to JBIC in order not to burn any bridges. According to the Mitsubishi executives, it is not clear if JBIC will finance another project in the future. Both executives indicated that they did not think Mitsubishi would be able to secure JBIC financing for any of its oil or gas projects in Venezuela in the future.

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